

## Message Text

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47

ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 RSC-01 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-03 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 PA-02 PRS-01 USIA-15 FEA-01 AGR-10 /105 W

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R 280011Z NOV 74

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 4994

UNCLAS MEXICO 10020

E.O. 11652: N/A

TAGS: EFIN MX

SUBJECT: PROSPECTIVE CHANGES IN GOM ECONOMIC POLICIES

PASS TREASURY

1. DIRECTOR-GENERAL OF BANCO DE MEXICO FERNANDEZ-HURTADO HAS SAID PUBLICLY THAT TIGHT CONTROLS ON CREDIT TO PRIVATE SECTOR WILL BE LOOSENED SOMEWHAT EARLY NEXT YEAR.

2. THIS POLICY CHANGE REFLECTS A NUMBER OF FACTORS. FERNANDEZ-HURTADO SAID THAT RATE OF INFLATION IS DECLINING, THAT DECLINE IN WORLD INTEREST RATES IN MAKING MEXICO'S FOREIGN BORROWING SOMEWHAT EASIER AND THAT OIL EXPORTS PLUS TIGHTER CONTROL OVER PUBLIC SECTOR IMPORTS - WHICH WERE 32 O/O OF TOTAL MERCHANDISE IMPORTS IN 1973 - WILL HELP THE BALANCE OF PAYMENTS IN 1975.

3. OTHER FACTORS, AND PROBABLY THE REASON FOR FERNANDEZ-HURATDO TO PROMISE SOME EASING AT THIS TIME FOR A LATTER DATE INCLUDE INCREASING CONCERN OVER THE LEVEL OF PRIVATE IVESTMENT AND THE RELATIVELY LOW RATE OF GROWTH IN THE INDUSTRIAL SECTOR. (INDUSTRIAL PRODUCTION INDEX FOR JULY WAS ONLY 3.7 O/O ABOVE JUNE 1973 FIGURE. INDEX FOR MANUFACTURES WAS UP ONLY 1.6 O/O OVER SAME PERIOD.) BUSINESS-MEN AND BANKERS HAVE

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BEEN PUSHING FOR SOME EASE IN CREDIT POLICY. MONEY SUPPLY,

FERNANDEZ-HURTADO HAS SAID, HAS NOT INCREASED IN REAL TERMS  
THIS YEAR.

4. THE PROSPECTIVE EASING ALSO REFLECTS AN EXPECTATION  
THAT FISCAL POLICY WILL BE ABLE TO SHARE A GREATER PART OF  
THE ANTI-INFLATION BATTLE. TAX RECEIPTS FROM RECENTLY APPROVED  
REFORM PACKAGE WILL HELP IN THIS REGARD. IN PUBLIC TALKS,  
TREASURY OFFICIALS HAVE SAID THAT 1975 BUDGET EXPENDITURES ON  
CURRENT ACCOUNT WILL INCREASE ONLY ENOUGH TO COVER HIGHER SALARY  
COSTS WHEREAS CAPITAL EXPENDITURES WOULD INCREASE ONLY IN SEVERAL  
SELECTED SECTORS INCLUDING AGRICULTURE, TOURISM, EDUCATION,  
STEEL AND PETROLUM. BUDGET FOR 1975 WILL BE PRESENTED TO CONGRESS  
IN EARLY DECEMBER. INCREASE IN EXPENDITURES IN REAL TERMS  
LIKELY TO BE MINIMAL, IF ANY.  
BRANDIN

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